

CITY AUDITOR'S OFFICE

# Cash Handling Controls and Accountability, Fiscal Year 2013/14

March 6, 2014 AUDIT REPORT NO. 1404

CITY COUNCIL
Mayor W.J. "Jim Lane
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March 6, 2014

Honorable Mayor and Members of the City Council:

Enclosed is the audit report Cash Handling Controls and Accountability, which was included on the Council-approved FY 2013/14 Audit Plan. This audit is performed periodically to evaluate the City's cash handling controls and accountability through unannounced cash handling audits at several locations across City operations.

Overall, City staff at the audited locations are generally handling and accounting for cash receipts appropriately. Some locations can improve accountability for tickets and similar items that are the basis of their cash handling. Also, some petty cash balances may be higher than needed, and Accounting can improve adherence to its own requirement of annually training City cash handlers.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

Sharron Walker, CPA, CFE

City Auditor

Audit Team:

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### **EXECUTIVE SUMMARY**

This audit of *Cash Handling Controls and Accountability* was included on the Council-approved FY 2013/14 Audit Plan. Unannounced audits of various cash handling locations were performed to determine accountability for the City's cash handling, including compliance with related Administrative Regulations (AR) 268, *Cash Handling*, and AR 270, *Petty Cash*.

From the City's 54 cash handling locations, we selected six locations based upon factors such as deposit volume, geographical proximity, and length of time since the location's last cash handling audit. This year's six sites included facilities and programs within the Community Services Division. During the audit, we provided specific recommendations to Division management for the location. The overall findings and recommendations for the six locations are summarized in this report.

City staff at the audited locations are generally accounting for and handling cash appropriately. Some locations can improve certain aspects of their cash handling practices, including documented supervisory reviews, immediately recording transactions and providing receipts, more limited access to cash drawers and safes, evaluating fund amounts, and proper separation of responsibilities to lessen the risk of theft, loss, or fraud. Further, improvements can be made in ticket, wristband, and access card inventory management at some locations.

The Accounting section in the City Treasurer's office should re-evaluate petty cash usage and the related authorized fund amounts at several locations. As well, while Accounting implemented some of last year's recommendations, adherence to the AR requirement of annually training City cash handlers should be improved.

### **BACKGROUND**

The term 'cash handling' is used to encompass the controls and processes related to

accounting for and safeguarding all negotiable instruments, whether in cash, check or electronic form of tender. In fiscal year (FY) 2012/13, staff throughout the City collected approximately \$533 million for various fines, fees, services, and products. This represents about 85% of the \$622 million in revenues received by the City in FY 2012/13.

The City's centralized Remittance Processing program processes about two-thirds of mailed-in and electronic customer payments. Following Remittance Processing, Business Services, City Court, and Development Services staff handled the greatest proportion of receipts, about 16% combined.

the most common type of occupational fraud and includes theft of cash receipts, cash on hand, and inventory.

Asset misappropriation is

SOURCE: Association of Certified Fraud Examiners, 2012 Report to the Nation on Occupational Fraud and Abuse

Based on the most recently completed fiscal year, as shown in Figure 1, the City's cash handlers receive about 79% of these

monies in check form; 18% through wires, electronic funds transfers (EFT), or interactive voice response (IVR); 2% through credit or debit card transactions; and only about 1% in cash.

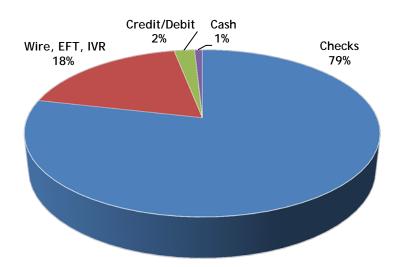


Figure 1. Receipts by Type for FY 2012/13

SOURCE: Auditor analysis of FY 2012/13 Remittance Processing, iNovah and CLASS deposit reports.

### OBJECTIVES, SCOPE, AND METHODOLOGY

An audit of Cash Handling Controls and Accountability, including unannounced audits of various cash handling locations, was included in the FY 2013/14 Audit Plan approved by the City Council. The primary audit objective was to determine accountability for the City's cash handling, including compliance with related Administrative Regulations (AR) 268 - Cash Handling and AR 270 - Petty Cash.

For this fiscal year, we conducted unannounced cash counts at the following six locations:

Location	Department	Division
Appaloosa Library	Library Systems	Community Service
Arabian Library	Library Systems	Community Services
Horizon Park & Community Center	Parks & Recreation	Community Services
McCormick-Stillman Railroad Park		
The Station	Parks & Recreation	Community Services
Hartley's General Store	Parks & Recreation	Community Services
Snack Stop	Parks & Recreation	Community Services
McDowell Mountain Ranch Aquatic Center	Parks & Recreation	Community Services
Scottsdale Sports Complex	Parks & Recreation	Community Services

Employees at 54 locations throughout the City handle cash and other negotiable instruments. Therefore, we selected locations based upon risk factors such as deposit volume, change in deposit volume from the previous year, previous audit results, and length of time since the location's last cash handling audit.

In addition to being accountable for customer payments, cash handling locations usually have a small change fund and some have a petty cash fund for making small dollar purchases. We also reviewed five change funds and one petty cash fund during the unannounced cash counts.

As part of each unannounced audit, we:

- Counted all cash on hand (including cash, checks, and debit/credit payments) and reconciled to transaction records.
- Verified that change and petty cash funds balanced to the amounts authorized by the Accounting department.
- Compared the location's written cash handling procedures to City AR requirements.
- Interviewed management and staff regarding procedures and reconciliations.
- Evaluated the design and effectiveness of cash handling controls.

For further assurance of appropriate cash handling, we compared recorded sales and inventory or other detailed records of the following:

- Tickets and wristbands for rides and museum admission at the McCormick-Stillman Railroad Park.
- Skate park access cards at the McDowell Mountain Ranch Aquatic Center and the Horizon Park & Community Center.
- Printing and copying on public pay-per-use machines at the City libraries.

Generally, City staff at the locations reviewed are appropriately accounting for and handling cash. Some locations can improve certain aspects of their cash handling practices to help prevent errors or irregularities or make the detection of any discrepancies easier. Additionally, while progress has been made, Accounting can further improve the City's cash handling accountability.

We conducted this audit in accordance with generally accepted government auditing standards as required by Article III, Scottsdale Revised Code, §2-117 et seq. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Audit work took place during the period of June 2013 to February 2014.

### **FINDINGS AND ANALYSIS**

1. Improving controls at some locations could help prevent errors or irregularities or make their detection easier.

This year, six locations were selected for unannounced cash handling audits. While most sites balanced exactly to the transaction records and authorized change fund amounts, two sites had small discrepancies. Cash handling controls at the audited sites were generally operating appropriately, but the following improvements can be made at some locations:

- A. Supervisory review of cash balancing documents, particularly voided or refund transactions, are not consistently recorded. Supervisory review can help ensure issues are addressed, such as excessive or undocumented voids or out-of-balance transactions.
- B. Unrecorded transactions represent a significant risk of undetectable loss.
  - 1. At one location, the cash in the register was \$6.95 more than recorded on the transaction report. Employees stated that a large school group had made purchases just prior to the unannounced cash count and some transactions may have not been entered into the register.
  - 2. At one location, cashiers only issued a receipt when customers responded that they wanted a printed receipt. Issuing a receipt provides assurance that the transaction has been entered into the point-of-sale (POS) system.

Each transaction must be recorded so that additional documentation is necessary to explain any amount that is removed.

- C. At some locations, cash handling may not always be performed in dual custody.
  - AR 268 provides all cash balancing must be performed in dual custody, with cash being counted by two employees individually. Records at some locations did not consistently indicate cash balancing and deposit preparation was performed in dual custody.
  - At some locations, the number of employees with access to safes seemed unnecessary and the dual-control safe features were not in use. In addition, some locations did not change their safe combinations when authorized persons left City employment.
  - 3. At one location, some receipts are mailed in, but the mail is not opened in dual custody. An efficient way to provide good checks and balances would be to direct mail-in payments to the Remittance Processing address.
- D. At some locations, employees were allowed to use the same cash register or drawer during the same time period without a control in place to maintain individual responsibility for their transactions. Further, one employee was observed accepting and processing payments through the CLASS POS system, but the transaction report showed a different employee as the logged-in user ID. The City's Information Technology Security Policy states that users will never share access to accounts.

- E. One location has an authorized change fund of \$25. While daily cash collected is not substantial, the change fund does not appear adequate for operational purposes. When additional change is needed, employees take cash offsite to a local grocery store to obtain smaller bills or coins.
- F. At one location, the program, facility, and other fees were not clearly displayed as required by AR 268. Having the fees displayed helps customers with their purchase decisions and assures they are being properly charged.

Specific details were provided to management as part of this audit but to minimize risk to the City's cash handlers are not included here.

#### **Recommendations:**

Division management should:

- A. Require supervisory review and supervisor documentation of cash balancing documents and related void, refund, and other documentation.
- B. Require that all sales transactions are immediately recorded and cash/cash equivalents are immediately placed in the cash register. Further, ensure employees are familiar with AR 268 requirements to provide each customer with a receipt validating the transaction.
- C. Require that dual custody is maintained in cash handling processes.
  - 1. Require that cash is counted and balanced in dual custody and that both employees sign off on balancing documents to verify that dual custody was maintained.
  - 2. Follow AR 268 requirements to use dual-control safes in a dual-control capacity. Further, change combinations when applicable and limit the number of employees with safe access to the minimum that is operationally feasible.
  - 3. Consider directing all mail-in receipts to the City's centralized Remittance Processing.
- D. Limit cash drawer access to one employee at a time or establish a mitigating control that maintains individual accountability when multiple cashiers are assigned to a single cash drawer. Further, emphasize to employees the City's IT Security policy requirement not to access the CLASS system and process transactions under another employee's user account.
- E. Work with employees to determine the frequency that additional change is needed and obtain Accounting approval to establish a sufficient change fund so that employees do not personally transport cash offsite.
- F. Ensure fees are clearly displayed for customers as required by AR 268.

### 2. Improvements are needed in ticket, wristband and access card inventory management at some locations.

At the selected sites, auditors examined recordkeeping and controls for various types of tickets and pay-per-use machines in relation to their cash handling accountability.

A. The McCormick-Stillman Railroad Park sells ride tickets individually for \$1 and in books of 12 for \$10, and "all day" \$10 wristbands for rides and admission to the

Park's museum. The ticket rolls, ticket books and wristbands are serially prenumbered, but the ticket numbers are not tracked. In addition, the number of individual tickets, ticket books and wristbands sold are not reconciled to the POS reports and deposits. As a result, it is difficult to prevent or detect unrecorded sales. Further, an unknown number of water-damaged tickets were destroyed without documentation of the serial numbers or management approval.

During the audit, recorded ticket sales did not balance to the Park's recent ticket purchases and auditors' physical inventory count of on-hand tickets. Ticket serial numbers should be used to ensure all daily ticket sales are recorded and deposited, and physical ticket inventories should be periodically compared to purchases and sales.

- B. The McDowell Mountain Ranch Park requires skate park users to use an electronic access card or a daily wristband. The McDowell Mountain Ranch Aquatic Center and the Horizon Park & Community Center sell the cards, which provide six months' access, for \$26 each while the daily "drop-in" wristbands are \$1 each. Both the access cards and wristbands are serially pre-numbered, but the numbers are not tracked. As a result, it is difficult to prevent or detect unrecorded sales. Further, the number of access cards and wristbands sold are not reconciled to POS reports and deposits, and the physical inventory periodically compared to purchases and sales.
- C. The Library provides public, pay-per-use printers/copiers at each of its libraries. Cash is collected and deposited from the machines on a monthly basis, but the print/copy counts are not reconciled to the cash receipts. Between April 2011 and October 2013, print/copy cash deposits were less than the machine counts indicated. Further, an independent supervisor does not review these deposits and balancing documents.

### Recommendations:

### Division management should:

- A. Ensure ticket rolls, ticket books and wristbands are tracked by serial number and reconciled to daily sales and deposits. Ensure the serial numbers are recorded and management approval is documented prior to any ticket destruction. Further, ensure the physical ticket inventory is periodically reconciled to ticket purchases and sales.
- B. Ensure skate park access cards and wristbands are tracked by serial number and reconciled to daily sales and the deposit. Further, ensure ticket and wristband inventories are periodically reconciled to their purchases and sales.
- C. Ensure printer/copier use is reconciled to cash collected and deposited, and that an independent supervisor reviews the cash balancing documents.

## 3. Progress has been made, but Accounting can further improve the City's cash handling guidance.

The Accounting department, which is within the City Treasurer's Office, has implemented a number of the recommendations included in last year's cash handling audit (Audit Report No. 1303). Specifically, Accounting has worked with departments to ensure their petty cash is timely reconciled for reimbursement and has developed a formal log to track issuance of manual receipt books and other cash handling supplies. As well, Accounting has reviewed its approved cash handling exceptions, which allow departments to not follow certain requirements, and reduced the more than 80 exceptions to 16. Accounting has not found a feasible alternative to issuing checks payable to petty cashiers and has stated the daily balancing documents will not be modified to track voids/refunds. In the following areas, increased oversight and compliance with administrative regulations could improve cash handling accountability.

- A. Petty cashiers are issued initial fund amounts that may be excessive and a department that could be serviced by one petty cashier may have multiple petty cashiers. During FY 2012/13, approximately \$15,000 in petty cash was used for purchases. Based on analysis of petty cash use during this period, 10 petty cashiers requested reimbursements that totaled less than 2 times the authorized fund amounts, demonstrating a low petty cash turnover rate.
- B. Currently, certain responsibilities included in AR 268 are not consistently implemented. Annual cash handling training is not being provided to a majority of the City's cash handlers. AR 268 states training will be made available in a group setting and on an individual basis as needed; however, it does not state who is responsible. As of October 2013, the Accounting department identified 466 staff as cash handlers. However, only 75 (16%) had received cash handling training at the 10 trainings provided by Accounting staff from September 2012 through August 2013.

#### Recommendations:

The City Treasurer's Office should:

- A. Consider reducing the authorized amount for petty cashiers with a low fund turnover rate and consolidating petty cash for Water Administration.
- B. Remove the requirements for cash handling training from AR 268 or clarify responsibility for providing the City's cash handling training and ensure training is provided to enhance understanding of and compliance with the City's cash handling requirements.

### MANAGEMENT ACTION PLAN

1. Improving controls at some locations could help prevent errors or irregularities or make their detection easier.

### Recommendations:

Division management should:

- A. Require supervisory review and supervisor documentation of cash balancing documents and related void, refund, and other documentation.
- B. Require that all sales transactions are immediately recorded and cash/cash equivalents are immediately placed in the cash register. Further, ensure employees are familiar with AR 268 requirements to provide each customer with a receipt validating the transaction.
- C. Require that dual custody is maintained in cash handling processes.
  - 1. Require that cash is counted and balanced in dual custody and that both employees sign off on balancing documents to verify that dual custody was maintained.
  - 2. Follow AR 268 requirements to use dual-control safes in a dual-control capacity. Further, change combinations when applicable and limit the number of employees with safe access to the minimum that is operationally feasible.
  - 3. Consider directing all mail-in receipts to the City's centralized Remittance Processing.
- D. Limit cash drawer access to one employee at a time or establish a mitigating control that maintains individual accountability when multiple cashiers are assigned to a single cash drawer. Further, emphasize to employees the City's IT Security policy requirement not to access the CLASS system and process transactions under another employee's user account.
- E. Work with employees to determine the frequency that additional change is needed and obtain Accounting approval to establish a sufficient change fund so that employees do not personally transport cash offsite.
- F. Ensure fees are clearly displayed for customers as required by AR 268.

MANAGEMENT RESPONSE/PROPOSED RESOLUTION: Community Services management agrees to implement the following procedures and controls based upon audit recommendations:

- A. Supervisory reviews of cash balancing documents, including refund and void transactions, will be conducted and documented regularly.
- B. All sales transactions are recorded at the time of purchase. In addition, receipts will be printed and given to customers for every transaction.
- C. Training on dual custody will be provided to Community Service staff as part of regular staff training and during annual reviews of AR 268.
  - 1. Cash will be counted and balanced in dual custody with documentation to

- indicate that dual custody was maintained. If counting and balancing cash in dual custody is not operationally feasible for a site, an exception from Accounting will be requested.
- 2. The number of employees with safe access will be limited and dual custody features will be utilized on safes. If dual custody features are not utilized, an exception from Accounting will be requested. In addition, safe combinations will be changed upon employee termination.
- 3. Customers will be encouraged to complete permit payments on-line or by telephone to reduce the number of mail-in payments received by Community Services staff.
- D. Cash drawer access will be limited to one employee per drawer. If limiting cash drawer access to one employee is not operationally feasible for a site, an exception from Accounting will be requested. Further, employees will not access the CLASS system and process transactions under another employee's user account.
- E. Increasing the initial change fund amount and processes to obtain change when needed will be discussed with Accounting.
- F. Program and facility fees will be clearly displayed for customers.

RESPONSIBLE PARTY: Community Services Management

COMPLETED BY: 8/31/2014

2. Improvements are needed in ticket, wristband and access card inventory management at some locations.

### **Recommendations:**

Division management should:

- A. Ensure ticket rolls, ticket books and wristbands are tracked by serial number and reconciled to daily sales and deposits. Ensure the serial numbers are recorded and management approval is documented prior to any ticket destruction. Further, ensure the physical ticket inventory is periodically reconciled to ticket purchases and sales.
- B. Ensure skate park access cards and wristbands are tracked by serial number and reconciled to daily sales and the deposit. Further, ensure ticket and wristband inventories are periodically reconciled to their purchases and sales.
- C. Ensure printer/copier use is reconciled to cash collected and deposited, and that an independent supervisor reviews the cash balancing documents.

MANAGEMENT RESPONSE/PROPOSED RESOLUTION: Community Services management agrees to implement the following procedures and controls based upon audit recommendations:

A. Ticket rolls, ticket books and wristbands will be tracked in the point of sale system and included in the annual physical inventory. On a monthly basis a supervisor will

compare inventory to sales.

- B. Access cards and wristbands will be tracked by serial number and reconciled.
- C. Printer/copier use will be reconciled to cash receipts and deposits in dual custody. Also, supervisory reviews of cash balancing documents will be conducted and documented regularly by the Senior Management Analyst.

RESPONSIBLE PARTY: Community Services Management

COMPLETED BY: 8/31/2014

3. Progress has been made, but Accounting can further improve the City's cash handling quidance.

### Recommendations:

The City Treasurer's Office should:

- A. Consider reducing the authorized amount for petty cashiers with a low fund turnover rate and consolidating petty cash for Water Administration.
- B. Remove the requirements for cash handling training from AR 268 or clarify responsibility for providing the City's cash handling training and ensure training is provided to enhance understanding of and compliance with the City's cash handling requirements.

MANAGEMENT RESPONSE: Partially Agree

### PROPOSED RESOLUTION:

A. The City Treasurer's Office will review petty cashier activity over the past twelve months to determine whether low use funds should be reduced or eliminated. The petty cash fund for Water Administration (\$250) was eliminated effective 2/28/2014.

RESPONSIBLE PARTY: Joyce Gilbride, Accounting Director

COMPLETED BY: 3/31/2014

B. The City Treasurer's Office feels the requirement for cash handling training should remain in AR 268 and has been working for the past several months on a computer based training (CBT) module for cash handling. The training will be provided through Scottsdale University similar to the annual Ethics training required of all employees. Staff from Information Technology has been assisting with the development of the CBT; however, there are several other higher priority projects before this. Section 4.36 of AR 268 will be updated once the CBT is complete.

RESPONSIBLE PARTY: Joyce Gilbride, Accounting Director

COMPLETED BY: 9/30/2014

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### **Audit Committee**

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